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Reasons for designating Dŵr Cymru Cyfyngedig's Cwm Taf Water Supply Strategy as a DPC Delivered Project

About this document

At the 2019 Price Review (PR19), we introduced a new delivery model – Direct Procurement for Customers (DPC) – to introduce greater competition into the delivery, financing, ownership, and operations of large infrastructure projects. Where projects are suitable for delivery under DPC, we are able, with the agreement of the relevant water or sewerage company, to designate the project as one that must be delivered via the DPC mechanisms. Once designated, the relevant water or sewerage company must competitively tender the project.

In February 2021, we amended Dŵr Cymru Cyfyngedig's conditions of appointment (licence) to regulate delivery of infrastructure projects via DPC. Amongst other things, a new condition U sets out the process and requirements for designating a project for delivery by DPC and changes to condition B allow a company to apply for an interim determination if a designation is revoked or modified.

A designation notice must set out the scope of the project that must be put out to tender. At PR19, we considered that Dŵr Cymru Cyfyngedig's Cwm Taf Water Supply Strategy should be delivered via DPC.

This document is a notice under section 195A of the Water Industry Act 1991 (the Act), setting out the reasons for our decision to designate the Cwm Taf Water Supply Strategy as a project to be delivered via DPC and for our subsequent decision to amend that designation.

The notice designating the Cwm Taf Water Supply Strategy, is published on our website.

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1. Background

At the 2019 Price Review (PR19) we introduced Direct Procurement for Customers (DPC) to introduce competition into the delivery of large infrastructure projects. The approach requires companies to put out to competitive tender large infrastructure projects where delivery by a third-party is likely to offer better value for money for customers. A Competitively Appointed Provider (the CAP) may be appointed to design, build, finance, operate and maintain the relevant infrastructure. In our PR19 price review methodology we said that we expected water company business plans to consider DPC for the delivery of large projects against the following three eligibility criteria:

- Size (approximately £100m or more whole life totex);
- Discreteness of the project; and
- Value for money for customers.

At PR19, five projects were identified where DPC is likely to offer better value for money for customers. In February 2021, we modified five companies' licences¹ to give effect to the DPC delivery model, establishing the framework for the regulation of DPC projects and allowing Ofwat, with the agreement of the water company, to designate a project as a DPC Delivered Project and require the company to deliver the project via DPC.

In addition to designating the Cwm Taf Water Supply Strategy, Ofwat has to date designated two other DPC projects²

For PR19, we also [published separate guidance](#) on the process companies should follow to develop and deliver DPC projects. The guidance sets out the various stages and

¹ The five water companies are listed here with links to their published licence conditions. The DPC Licence Conditions are set out in Licence Condition B and Licence Condition U : [Anglian Water Services Limited](#), [United Utilities Water Limited](#), [Dŵr Cymru Cyfyngedig](#), [Southern Water Services Limited](#), and [Affinity Water Services Limited](#).

² Projects designated as DPC to date are (with links to their published designations): [Anglian Water](#): Middlegate (formerly Elsham) Transfer and Treatment scheme and [United Utilities](#): Haweswater Aqueduct Resilience Programme (formerly the Manchester and Pennines Resilience scheme)

control points companies must pass through before procuring the project and awarding a contract to the CAP.

2. Cwm Taf Water Supply Strategy

At PR19, Dŵr Cymru Cyfyngedig proposed the Cwm Taf Water Supply Strategy, which concerns the development of a new water treatment plant and associated works (including connections and decommissioning works) in South Wales. Dŵr Cymru Cyfyngedig proposed to procure the works using Ofwat's DPC initiative. We accepted the need for the scheme and determined that it was suitable to be delivered via DPC. We therefore did not provide an allowance in price limits for the company to deliver the scheme itself but instead required the company to put the project out to competitive tender for a third party to design, build, finance, operate and maintain the scheme. We allowed £13.6m in price limits for Dŵr Cymru Cyfyngedig to design the project and to put it out to tender.

On 7 December 2022, we issued a notice designating Dŵr Cymru Cyfyngedig's Cwm Taf Water Supply Strategy as a DPC delivered project under condition U1 of Dŵr Cymru Cyfyngedig's licence and on 11 May 2023 we modified that notice.

In accordance with section 195A of the Act, this document sets out the reasons for issuing the designation notice and for subsequently modifying that notice.

3. Reasons for issuing a designation notice.

Following engagement with Dŵr Cymru Cyfyngedig on the Cwm Taf Water Supply Strategy, we are designating it a DPC Delivered Project under licence condition U1 for the following reasons:

1. Size: Dŵr Cymru Cyfyngedig has provided sufficient evidence that the project is of a size that means the increased costs of the DPC procurement process are likely to be offset by the benefits from DPC. At PR19, we advised companies to

use a threshold of £100m whole life totex³ to identify projects that may be suitable for DPC. While not a hard threshold, the value of the total Cwm Taf Water Supply Strategy meets this threshold.

2. Discreteness: While the project is complex with multiple interfaces, Dŵr Cymru Cyfyngedig's PR19 Business Plan submissions provided sufficient evidence that the project is of a suitable level of technical discreteness to allow it to be delivered and financed by a CAP.
3. Value for Money: Dŵr Cymru Cyfyngedig provided evidence that delivery via DPC was likely to offer better value for money for customers compared to delivery by Dŵr Cymru Cyfyngedig. Its value for money assessment of the DPC route compared to the in-house counterfactual identified that DPC could provide potential benefits to customers compared to delivery by Dŵr Cymru Cyfyngedig.

4. Reasons for modifying the initial designation.

Following our designation of the project in December 2022, Dŵr Cymru Cyfyngedig continued to engage with us and their wider stakeholders about the development of the Cwm Taf Water Supply Strategy and they are currently engaged in further options analysis on the detailed scope of the scheme. They have paused their planning application while they complete that activity. As a result of that exercise, Dŵr Cymru Cyfyngedig requested that we amend the scope of the initial designation. We have now amended the schedule to the original notice to remove some of the detail as to scope, as that scope is now subject to further consideration.

5. Conclusion and next steps

We have issued to Dŵr Cymru Cyfyngedig a designation notice for the Cwm Taf Water Supply Strategy and have published on our website a copy of the notice which, for reasons of national security and public safety, includes limited redactions concerning specific assets.

³ For PR24 we have advised companies to use a threshold of £200m whole life totex to identify projects that may be suitable for DPC. The expected value of the Cwm Taf Water Supply Strategy would meet this higher threshold.

**Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
We regulate the water sector in England and Wales.**

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